



Preparing for Retirement

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Proceed with Caution When You Reinvest Retirement Distributions!

By Joseph P. Borg, Director of the Alabama Securities Commission

Retirees comprise the largest and fastest-growing segment of society and increasingly hold the majority of personal financial assets, more than \$14 trillion nationally, according to AARP's Public Policy Institute. Helping retirees better understand how to safeguard their hard-earned money through investor education is an important component of the Alabama Securities Commission's mission.

Alabama state and local employees and teachers are indeed fortunate to have successful and well-funded pension plan opportunities such as those offered by the RSA. Once these employees leave active service, the financial services industry offers a vast array of products to reinvest their pension assets in products that may or may not be suitable for an investor's objectives.

This Commission is seeing an increase in the number of retirees who are considering reinvesting their retirement savings in two prevalent financial products being aggressively marketed and sold to retirees: *variable annuities* and *equity-indexed annuities*.

Variable annuities have been heavily marketed based upon sales promises of tax-deferred benefits and a representation of potential for long-term investment growth, typically ten years or longer. While they can be appropriate investment vehicles for some, variable annuities are not usually suitable for investors who may have shorter-term financial goals including those nearing retirement or who may require quick access to their money due to future or potential financial needs or emergencies.

An even more complex investment option is the equity-indexed annuity, whose relative return is tied directly to the promises of an insurance company, the insurance company's ability to pay and not directly to the markets overall performance. This instrument is usually unsuitable for retirees and is not subject to the same rigorous oversight and regulation as other investment products. It also is often sold by insurance agents with little investment and financial planning related training.

While these products can be legitimate investment vehicles, a major concern is product **suitability**. Investors looking to retire or already in retirement should be offered the MOST SUITABLE and the BEST investments to achieve their financial objectives. Unfortunately, many of these products are being aggressively pitched most often through sales seminars, "free-lunch" investment events and infomercials that may use incorrect, questionable or deceptive marketing tactics or alleged 'facts' which often are exaggerated or omit very important factors to target consumers who may not be properly informed of potential risks associated with their purchase.

Potential investors need to understand the risk of these investment products, the high surrender penalties for early withdrawals, possible adverse tax consequences, the limits (caps) on 'upside' market gains, the long (sometimes 20 years plus) time to 'amortize' your gains (get your money back), the high costs and fees, and complete reliance on the insurance company for future payments. With extraordinarily high commissions being paid to the sales agents (8, 10, 12% of the amount invested) the motivation to sell these particular insurance products must seriously be considered when salespersons steer investors toward these products.

So beware, not all products are suitable for YOUR financial future. ALWAYS have any complicated investment strategy, especially variable and equity indexed annuities reviewed by someone independent, someone you trust, maybe your accountant, lawyer or other financial advisor. It's your money, it's your future, and YOU are the first line of defense in protecting what you worked so hard for.

The best time to call the Alabama Securities Commission (ASC) is before you invest your precious retirement savings. It may take only one uninformed investment decision to wipe out or severely damage your nest egg.

Contact ASC to check out securities broker-dealers, agents, investment advisors, investment advisor representatives, financial planners, the registration status of securities, to report suspected fraud or to obtain consumer information. ASC provides free investor education and fraud prevention materials in print and on our website. The ASC also makes educational presentations upon request. Call 800-222-1253; Email: asc@asc.alabama.gov; Website: www.asc.alabama.gov

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